

November 13, 2000

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Oil Conservation Division
2040 S. Pacheco
Santa Fe, NM 87505

Re: Application of Ricks Exploration, Inc.
Case #12538

Gentlemen:

By letter dated October 25, 2000 I recently received a copy of the above referenced application from Mr. James Bruce, the attorney for the Applicant. I am a mineral owner under the lands affected by the application as the managing partner of a partnership. The remaining minerals are owned by family members or related family trusts. You will find enclosed a copy of the Oil and Gas Lease which affects the mineral interest which I control under the acreage. Please note the development provision contained in paragraph 11 of the lease. It is my understanding that the remaining mineral interest owners executed leases containing similar, if not identical, provisions.

My concern is that if the application is granted, it would have the practical affect of altering the lease holders obligations under paragraph 11 by allowing the Burrus #1 well to hold the entire SE/4 of Section 22, Township 12 South, Range 38 East. It is my understanding that existing regulations allow for 40 acre spacing. While I am sensitive to the economics of drilling additional wells, I feel that the proposed 160 acre spacing would unreasonably modify the intent of the development provision contained in the lease. I would be agreeable, however, to 80 acre spacing.

I have discussed this matter with Mike Field, who also holds minerals under the acreage affected by the application. He has expressed similar concerns to mine, but is also agreeable to 80 acre spacing. Although we will be unable to attend the hearing, we would appreciate your consideration of our concerns.


Sarah K. Burrus, O7 Ranch Mineral Partnership

cc: James Bruce, Esq.
Mike Field

OIL AND GAS LEASE

THIS AGREEMENT made this 14th day of February, 1997, between
07 Ranch Mineral Limited Partnership, c/o Sarah K. Burrus, General Partner

Lessor (whether one or more), whose address is: Rt. 1, Box 27, Plains, Texas 79355
and Gary L. Kiehne, P.O. Box 3855, Midland, Texas 79702 Lessee, WITNESSETH:

1. Lessor in consideration of -Ten and No/100- Dollars
(\$10.00) in hand paid, of the royalties herein provided and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil and gas, laying pipe lines, building roads, tanks, power stations, telephone lines and other structures thereon and on, over and across lands owned or claimed by Lessor adjacent and contiguous thereto, to produce, save, take care of, treat, transport, and own said products, and housing its employees, the following described land in Lea County, New Mexico, to-wit:

TOWNSHIP 12 SOUTH, RANGE 38 EAST, N.M.P.M.
Section 22: SE/4 and E/2SW/4

2. Without reference to the commencement, prosecution or cessation at any time of ~~drilling~~ March 26, 1997 or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of ~~three~~ three years from ~~the date~~ (called "primary term") and as long thereafter as oil or gas is produced from said land or land with which said land is pooled hereunder.

3. The royalties to be paid by Lessee are: (a) on oil, 1/5 of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefor prevailing for the field where produced on the date of purchase; (b) on gas, including casinghead gas or other gaseous substance, produced from said land, and sold, or used off the premises or for the extraction of gasoline or other product therefrom, the market value at the well of 1/5

of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/5 of the amount realized from such sale; while there is a gas well on this lease or on acreage pooled therewith but gas is not being sold or used, Lessee may pay or tender as royalty, on or before ninety (90) days after the date on which said well is shut in and thereafter at annual intervals the sum of \$1.00 per acre, and if such payment is made or tendered, this lease shall not terminate and it will be considered that gas is being produced from this lease in paying quantities. Payment or tender of said shut-in gas royalty may be made by check or draft of Lessee mailed or delivered to the parties entitled thereto on or before the date said payment is due. Lessee shall have free use of oil, gas, coal and water from said land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting any so used.

4. Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease, or any portion thereof as to oil and gas, or either of them, with other land, lease or leases in the immediate vicinity thereof to the extent, hereinafter stipulated, when in Lessee's judgment it is necessary or advisable to do so in order properly to explore, or to develop and operate said leased premises in compliance with the spacing rules of the New Mexico Oil Conservation Commission, or other lawful authority or when to do so would, in the judgment of Lessee, promote the conservation of oil and gas in and under and that may be produced from said premises. Units pooled for oil hereunder shall not substantially exceed 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil or gas from land covered by this lease whether or not the well or wells are located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on an acreage basis—that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the County in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.

5. If at the expiration of the primary term oil or gas is not being produced on said land, or from land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary term, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas so long thereafter as oil or gas is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil or gas is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 660 feet of and draining the lease premises, or land pooled therewith, Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipe lines below ordinary plow depth, and no well shall be drilled within two hundred feet of any residence or barn now on said land without Lessor's consent.

7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U. S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.

8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same. Without impairment of Lessee's right under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in the oil or gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately. Should any one or more of the parties named as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas therefrom by reason of scarcity of or inability to obtain or to use equipment or material, or by operation of force majeure, any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended, and Lessee shall not be liable in damages for failure to comply therewith; and this lease shall be extended while and so long as Lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas from the leased premises; and the time while Lessee is so prevented shall not be counted against Lessee, anything in this lease to the contrary notwithstanding.

IN WITNESS WHEREOF, this instrument is executed on the date first above written. Addendum containing paragraphs 11 through 18 attached hereto and by reference made a part hereof for all purposes.

07-Ranch-Mineral-Limited-Partnership

Sarah K. Burrus, General Partner
Tax ID# 75-2219058

Lessor

Lessor

No. _____

**Oil and Gas
Lease**

FROM

TO

Dated _____, 19____

No. Acres _____

County, N. M.

Term _____

This instrument was filed for record on the

_____ day of _____, 19____,

at _____ o'clock _____ M., and duly

recorded in Book _____, Page _____

of the _____ records of this office.

County Clerk

By _____, Deputy

When recorded return to

My commission expires _____, 19____

Notary Public

19____ by _____

The foregoing instrument was acknowledged before me this _____ day of _____

STATE OF _____
County of _____
ss. _____

INDIVIDUAL ACKNOWLEDGMENT

Notary's Printed Name: _____

My Commission Expires: _____ Notary Public

of 07 Ranch Mineral Limited Partnership, a Limited Partnership, and in the capacity therein stated.

by Sarah K. Burrus, General Partner, _____ President

The foregoing instrument was acknowledged before me this _____ day of February, 19 97

STATE OF ~~NEW MEXICO~~ TEXAS
County of Yoakum
ss. _____

CORPORATION ACKNOWLEDGMENT

My commission expires _____, 19____

Notary Public

19____ by _____

The foregoing instrument was acknowledged before me this _____ day of _____

STATE OF NEW MEXICO,
County of _____
ss. _____

INDIVIDUAL ACKNOWLEDGMENT

Attached to and by reference made a part of that certain Oil and Gas Lease dated 2/14/97 by and between 07 Ranch Mineral Limited Partnership, Lessor and Gary L. Kiehne, Lessee.

11. If at the expiration of the primary term hereof production is then being obtained or a test well is then being drilled and so long thereafter as Lessee conducts a continuous drilling program, with no more than 180 consecutive days elapsing between the completion of drilling operations on one well and the commencement of the actual drilling of the next succeeding well, this lease will be maintained in full force and effect. Upon the cessation of such continuous drilling program, this Lease shall terminate as to all undrilled proration unit acreage not allocated under and pursuant to a producing proration unit. Proration units shall be in accordance with the rules of the Governmental Authority having jurisdiction over well spacing. Said lease will then continue in full force and effect only as to the proration units from which production of oil or gas is producing or capable of producing in paying quantities is then established. It is agreed that in the absence of proration units by governmental authority, such units shall be no greater than 40 acres for an Oil well or 640 acres for a gas well.
12. In the event Lessee fails to meet its drilling obligations set forth in paragraph 11 above, this lease shall terminate as to all lands not within a proration unit then producing or capable of producing Oil and/or Gas.
13. At no time shall substantial quantities of salt water be stored or placed in surface pits, and all drilling pits into which salt water is placed shall be constructed and sealed in a water tight manner so that salt water cannot escape through or over such pits; and if substantial quantities of salt water are produced, the same shall be transported off the premises ~~or shall be reinjected into a formation which is below all fresh water bearing formations and in~~ ⁱⁿ all events salt water shall be handled in such manner so as not to pollute fresh water. SKB
14. Notwithstanding any other provisions herein to the contrary Lessee shall not have free use of fresh or potable water for drilling, repressuring, pressure maintenance, cycling or other secondary recovery operations.
15. Lessee shall fence any slush pits located on the leased premises, said fence shall be constructed of five strands of barbed wire and have three post corners. Lessee will maintain such fences in condition to turn livestock, until such time as the slush pits are covered.
16. Upon the completion or abandonment of operations hereunder, and from time to time during the term hereof, Lessee shall restore the surface of the land to, as nearly as reasonably practical to its condition prior to commencement of operations contemplated hereunder. Such restoration shall include the removal of caliche and other base materials brought in by Lessee and put down for well location pads, tank battery sites and roadways, removal of rocks, brush, and debris incident to the construction of roads, locations,

and other operations, including filling of slush pits and ruts. When requested by surface owner, Lessee shall place the caliche removed above on existing ranch roads located within a five mile radius of said lease to be designated by surface owner. Said restoration shall be performed from time to time during the term of this lease and upon completion of Lessee's construction of roads, locations or final use of an area where such operations have occurred.

17. Lessee agrees to consult with Surface Owner prior to building, constructing and locating all well locations, roads and other structures or installations on the leased premises and Lessee further agrees that he will, insofar as the same is economically practicable and consistent with good oil practices, locate and construct all roads and other installations in a manner which will not interfere with Lessor's normal and usual irrigation and farming and ranching practices. Lessor shall properly brace all fences prior to cutting them and shall build and furnish gates acceptable to surface owner at the intersection of roads to be utilized by Lessee and existing fences.
18. Lessee covenants and agrees to pay the surface owner actual, but not less than customary, damages for damages to the surface (including improvements), crops of Surface Owner or Surface Owner's tenant (and for this purpose grass shall be considered a crop), livestock and personal property caused by seismic work, drilling operations and/or any other of Lessee's Operations hereunder. Such damage payments shall include, but shall not be limited to, normal damages of not less than \$4,000.00 Per Well Location, (for a location of 90,000 square feet, ie. 300' by 300'), and not less than \$15.00 per, linear rod for all roads constructed by Lessee in its operations, and not less than \$15.00 per rod for pipelines up to four inches in size. Damages for pipelines over four inches in size shall be negotiated with Surface Owner. Damages of not less than \$4,000.00 per tank battery, unless located on the drill site. Water from surface owners wells shall be available for sale to Lessee for utilization in it's drilling operations at \$4,000.00 per well. Any other utilization of fresh water shall be negotiated with surface owner. Surface owner will furnish caliche at \$2.50/yard. *SKB*

07 Ranch Mineral Limited Partnership

Sarah K. Burrus

Sarah K. Burrus, General Partner

19. In regard to the use of any road by Lessee, such use by Lessee shall be confined to use in connection ^{with} the development of this lease only, and shall not be used in connection with the development of any other lease or leases without the written permission of Lessors. In the event Lessee fails to properly maintain the surface roadways according to customary maintenance standards or Lessee's agents fail to keep vehicles within the established roadway boundaries, then the surface owners may, at their option, close said roadway. *SKB*